BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Application of Pacific Gas and Electric Company To Revise Its Electric Marginal Costs, Revenue Allocation, and Rate Design. (U 39 M)	Application 06-03-005 (Filed March 2, 2006)

COMMENTS OF THE WESTERN POWER TRADING FORUM IN RESPONSE TO THE ASSIGNED COMMISSIONER'S SUPPLEMENTAL SCOPING MEMO REQUESTING COMMENTS ON DYNAMIC PRICING ISSUES

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In accordance with the directives contained in the Assigned Commissioner's Supplemental Scoping Memo and Assigned Commissioner's Ruling Updating Issues List, Schedule, and Categorization, dated August 22, 2007 (hereafter, the "Supplemental Scoping Memo"), the Western Power Trading Forum ("WPTF")[1] respectfully submits the following comments on certain rate design issues to be addressed in this proceeding.

I. INTRODUCTION

The Supplemental Scoping Memo revised the list of issues and schedule for the Dynamic Pricing Phase of this proceeding. The revision is based on the response of several parties to an earlier Assigned Commissioner's ruling of July 31, 2007. The Supplemental Scoping Memo also asks parties, "From your perspective, what are the one or more key policy issues that the Commission should address in this phase?"[2] WPTF believes that a fundamental issue that must be considered in this proceeding is how to enhance the transparency of wholesale prices to retail

[1] WPTF is a California non-profit, mutual benefit corporation. The membership of WPTF includes energy service providers, scheduling coordinators, power marketers, generators, energy consultants and public utilities, all of which are active participants in the restructured California electricity market. WPTF has a vital interest in the development of a competitive electric market and in the reduction of barriers that may exist in the structure of new markets.

[2] Supplemental Scoping Memo, at p. 5.

customers in order to create optimal price signals for price responsive demand response. Rather than continuing to rely on administrative approaches in designing retail tariffs to elicit demand response, it is far more important to fundamentally reform retail tariffs so that the CAISO day-ahead and real time price signals can flow through directly to customers. These reforms are particularly important given the utilities' plans to invest billions of dollars over the next several years in advanced metering infrastructure and "smart grid" technologies. WPTF addresses this subject in its response to Question 1 in the Rate Design section below.

Additionally, on August 13, 2007, WPTF filed comments[3] that suggested that the following two questions should be added to the list of rate design issues relative to Rate Design, Section VIII, Critical Peak Pricing:

- Should there be a narrowly defined exemption for generation facilities using system power for start-up operations made in response to a CAISO dispatch instruction?
- Should the Commission identify and eliminate any disincentives to operation of generation facilities during system shortages?

The Supplemental Scoping Memo responded to this request by noting that, "WPTF suggested two questions for the critical peak pricing (CPP) section that relate to the needs of peaking generators to use system power during start-up, which could occur during critical peak periods. This issue could be relevant to more rates than just CPP rates, so a more general question was added to the Rate Options section."[4] Question 8 in the Rate Options section then asks:

> 8. For customers that operate off-line and peaking generation facilities, how should the need to use system power for start-up operations be addressed?

WPTF offers comments herein in response to Question 8.

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[3] Comments of the Western Power Trading Forum on Assigned Commissioner's Ruling Requesting Comments on Dynamic Pricing Issues.

[4] Supplemental Scoping Memo, at p. 3 [footnote omitted].

II. BACKGROUND

As background, WPTF participated in the earlier examination of this topic, wherein the Commission declined to adopt the proposed settlements in the Critical Peak Pricing ("CPP") proceeding,[5] which provided for the establishment of voluntary CPP tariffs for large customers. By rejecting the settlements, the Commission eliminated the parties' agreement in the Pacific Gas and Electric Company ("PG&E") and Southern California Edison Company ("SCE") settlement that such rates would be offered solely on an "opt-in" basis. WPTF joined in the SCE-PG&E settlement precisely for that reason, as it meant that its generator members with off-line or peaking generation facilities would not become subject to the higher CPP rates when they were being called upon to generate power to address a critical peak load.

Moreover, it did not object to the San Diego Gas & Electric Company ("SDG&E") settlement because although that utility maintained a default basis for CPP participation, it made it clear that the opt-out process would be relatively painless. Instead, the Commission directed the utilities to incorporate default CPP tariffs for large customers into their next comprehensive rate design proceeding or other proceeding as directed.[6] Subsequently, in July 2006, the Commission opened a phase in this proceeding for implementing the Commission's CPP or "dynamic pricing" policy.

[5] Applications 05-01-016, 05-01-017 and 05-01-018.

[6] Decision 06-05-038, issued May 25, 2006.

III. COMMENTS ON QUESTION 1 IN THE RATE DESIGN SECTION

1. What are the objectives of dynamic pricing and time-differentiated rates? How should the various objectives be prioritized?

This proceeding provides an opportunity to identify retail tariff reforms that will create the conditions for more direct linkages between wholesale and retail markets, capitalize on new technology investments to enhance control over grid operations, and empower consumers to respond to prices through automated, price-driven demand response.

Technology is a key driver in achieving the full benefits of demand response in organized electric markets. Smart grid technologies currently are being deployed that will enable enhanced control of the grid, both at the bulk power level and at the distribution level where more granular control of individual circuits can be achieved and instances of uncontrolled outages minimized. In addition, advanced metering infrastructure is being deployed in many regions of the country that will enable wholesale energy market price signals to flow through directly to retail loads. Innovative new products and services made possible by these technologies are being developed that will allow the loads within homes and businesses to be assigned to individual circuits that can, in turn, be programmed to adjust automatically, and in some instances interrupt, based on the pricing preferences of individual customers.

In contrast, many retail electric service tariffs today have provisions that attempt to mimic wholesale market prices in order to elicit demand response. However, these approaches generally do not allow for differentiation of value across different customers and are a second best approach compared to providing retail consumers with direct visibility to wholesale prices that can acted upon through automated load control technologies.

The issue of demand response and the necessity for transparent wholesale prices was recently discussed in the Comments of the Federal Trade Commission ("FTC") filed on

September 13, 2007, in the FERC Advanced Notice of Public Rulemaking concerning proposals to strengthen competition in regions with Regional Transmission Organizations ("RTOs") or Independent System Operators ("ISOs").[7] The FTC noted as follows:

> One of the greatest impediments to electric power market reform to date has been retail price regulations that reduce or eliminate the incentive of retail customers to curtail consumption when wholesale prices increase. States typically set a single retail price for each class of electricity customer of a given utility. This price reflects historic costs averaged over an extended period and does not vary with the wholesale price in real time. Because the retail price does not increase when the wholesale price increases in real time, an increase in the wholesale price does not lead to a reduction in the quantity of electricity demanded.[8]

The reformation of retail prices so that wholesale prices flow through to end users is effectively an example of using scarcity pricing to ration demand. CAISO has in fact been directed by FERC to implement scarcity pricing. In a recent CAISO issue paper, it noted that:

> Under MRTU Release 1, the CAISO has proposed a limited scarcity pricing mechanism that raises bids to the bid cap when there are insufficient energy bids in real time while no contingency events have occurred. In the July and September 2005 Orders, the Commission accepted, in concept, the CAISO's initial limited scarcity proposal, but has directed the CAISO to develop a more extensive reserve shortage scarcity pricing approach with a later release of MRTU. In its September 2006 MRTU Order, FERC ordered a more comprehensive reserve shortage scarcity pricing mechanism to be implemented within 12 months of the implementation of MRTU Release 1. In its April 2007 MRTU Order, FERC further emphasized these requirements and stated that "the concept of scarcity pricing involves a systematic procedure to ensure that prices can rise during periods of genuine scarcity"[9] [10]

In view of this fact, it would be advisable for the Commission to act in a complementary fashion in its design of dynamic pricing tariffs. In response to question 1, WPTF therefore urges that a key objective of dynamic pricing and time-differentiated rates is to ensure the transparency of

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[7] *Wholesale Competition in Regions with Organized Electric Markets*, dockets RM07-19-000 and AD07-7-000.

[8] *Comments of the Federal Trade Commission*, at pp. 2-3.

[9] April 2007 FERC MRTU Order, 119 FERC ¶ 61,706. [Footnote in original]

[10] *California ISO Issue Paper Reserve Shortage Pricing Design*, May 31, 2007, at p. 3.

wholesale rates to retail customers. The Commission should emphasize reliance on wholesale prices in customers[1] electricity consumption decisions in lieu of administratively-determined retail rate design mechanisms (i.e., CPP).

IV. COMMENTS ON QUESTION 8 IN THE RATE OPTIONS SECTION.

8. **For customers that operate off-line and peaking generation facilities, how should the need to use system power for start-up operations be addressed?**

WPTF speaks to a public policy issue of great simplicity that should be addressed in this proceeding and deserves further consideration by the Commission. That issue is whether it is logical public policy to impose through CPP programs or any retail rates significant additional costs for generators to start up and operate their plants during a critical peak emergency and/or to thereby increase the costs to be incurred by consumers. It should seem obvious that during a critical peak period it is in the state's best interest for all generation facilities to be operating to address the increased demand that is occurring. However, if generators that draw on system power during start-up operations are not exempted from the adopted CPP rates that the Commission ultimately approves, this will provide a significant cost increase for generators that may be passed on to consumers. Needless to say, this will exacerbate the problem. [11]

A. The Use of Station Power during Generator Start-Up Procedures.

Many licensed generation facilities do not run on a continuous 24-hour per day, 365-day-per-year basis. Depending upon the age and economics of a facility, as well as the dispatch associated with contracts for power sales that may be in place, a generation facility can operate for as little as a few days per year, called into service only when system demand is at its greatest

[11] WPTF maintains that no retail sale in fact occurs when system power is drawn upon by a generator and thus the application of CPP rates is particularly inappropriate. Until that issue is finally resolved, most likely by action of FERC, WPTF continues in this proceeding to urge the Commission to exempt generators from the application of retail CPP rates for start-up power.

and the need for additional resources is most dire. At the time they are called upon, these facilities may utilize what is referred to as "station power," which is power purchased from the utility to whose grid the facility is interconnected, for their regular auxiliary station load and in order to start up pumps and fans to begin to generate power to meet the pressing emergency.

Assuming facility configurations permit, when there are multiple units at a single location, generating asset owners would endeavor to use auxiliary load to startup other units. However, when no units are running, or when the units are electrically isolated from each other, operators must rely entirely on the grid to start the units, which for large slow start resources add up to several thousands of kWh per startup.

Generally, under such shortage conditions, any CPP rates in effect at that time would be implemented, causing significantly higher prices to be applied to users that consume power during the defined critical peak periods. This could occur, for example, in the circumstance when a generator was attempting a restart, in response to a request from CAISO. It would constitute a significant financial burden on precisely those facilities which the state is intending to rely upon to mitigate the power shortage that may exist. Put simply, this makes little sense and is poor public policy.

In order to demonstrate the economic burden that would be placed on generators subject to CPP rates the following is a calculation of the possible incremental startup charges that a generator could incur as a result of CPP, based upon the rates discussed in the earlier CPP proceeding:

> Depending on the size of fossil unit, startup time varies from 12 to 24 hours. CPP rates would be in effect for between four and six of those hours, depending upon what standard is adopted by the Commission. The auxiliary power used during a startup also varies depending upon the size of unit, but typically amounts to approximately 14 MWs per hour on a larger (700MW) unit. With CPP pricing of $.10/kwh to $.81/kwh the incremental cost to a generator during a critical peak period would amount to $5,600 to $45,000 over a four hour period. Those amounts would increase to $8,400 to $67,500 for a six-hour CPP period. These

amounts can increase significantly, depending upon the plant configuration. Further, if the plant had a 24-hour startup time, it could conceivably incur CPP rates on two consecutive days, possibly leading to a greater resulting cost.

Placing this kind of economic burden on generators that are being called upon to assist in meeting critical peak demand simply does not represent good public policy. The purpose of CPP rates should be to discourage power consumption by end-users who can shift demand, reduce operation or take other steps to assist the state in reducing load during critical peaks. However, generators who consume system power during start-up are assisting the state by operating their facilities so that more power can come on to the grid and meet the needs of customers who cannot readily reduce demand. It is contrary to good public policy to place significant economic barriers in the way of these generators or cause them to pass on to other consumers the financial burden imposed by the CPP rates.

B. The CPP Tariffs for Each Utility should Exempt Net Station Power Utilized by Generators in Start-Up Modes.

The Commission should direct that any utility CPP rates that may be adopted should exempt any net station power consumed by a licensed generating facility during any hour when the critical peak prices are in effect. This is exactly the same proposal made by WPTF in the earlier phase of the CPP proceedings.[12] However, the issue was not sufficiently addressed by D.05-04-053 (the "Decision") in that proceeding and we revive it in the hopes that the Commission will reconsider its desirability.

The intent of this proposal is to remove any disincentive for a generator to restart a facility during a time when the system is in extreme shortage. Whenever a generator was consuming net station power (use from the grid in excess of onsite production) the absence of a CPP exemption could place an inappropriate economic burden on it. That obviously makes little

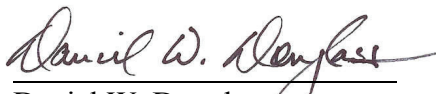
[12] Dockets A.05-01-016, A.05-01-017 and A.05-01-018.

intuitive sense, since the restart of any unit would be a solution to the problem and there should not be any tariff impediment to such generators returning to service. Therefore, WPTF proposes that CPP rates should provide for an exemption for any net power consumed by a licensed generating facility during any hour when critical peak prices are in effect.

V. CONCLUSION

This Commission and the utilities have to date relied on administrative approaches in designing tariffs to elicit demand response. What is more important by far is to reform tariffs so that CAISO day-ahead and real time price signals flow through directly to customers and those are used in economic decision making by end users. A fundamental goal of this proceeding should be to emphasize reliance on wholesale prices in customers[1] electricity consumption decisions instead of administratively-determined retail rate design mechanisms (i.e., CPP). Additionally, WPTF urges the Commission to direct that CPP rates should provide for an exemption for any net power consumed by a licensed generating facility during any hour when critical peak prices are in effect. WPTF thanks the Commission for its attention to these comments.

Respectfully submitted,



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Date: October 5, 2007

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of the foregoing document on all parties of record in the above captioned proceedings by serving an electronic copy on their email addresses of record and, for those parties without an email address of record, by mailing a properly addressed copy by first-class mail with postage prepaid to each party on the Commission's official service list for this proceeding.

This Certificate of Service is executed on October 5, 2007, at Woodland Hills, California.

Michelle Dangott

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A.06-03-005

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